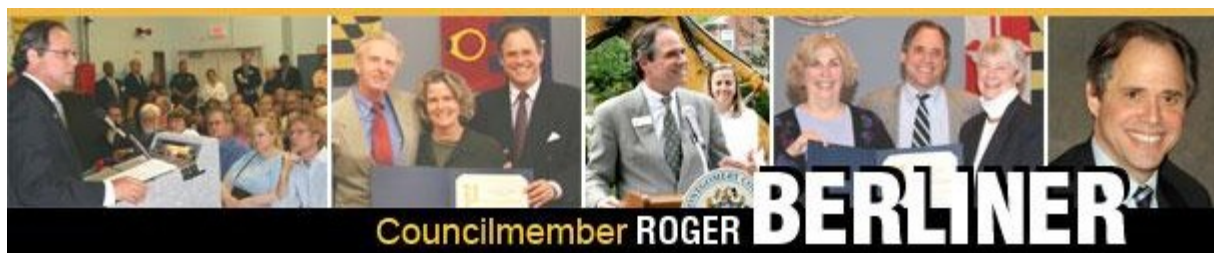


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### The Pepco Investigation Begins

As promised, I went to Baltimore this morning to observe the Maryland Public Service Commission's (MPSC) first day of hearings into the investigation of Pepco's quality of service, an investigation that our Council had requested.

The first three and a half hours (which is what I can report on now) focused on Pepco's reliability - or lack thereof. The MPSC Chairman and his colleagues pressed Pepco and framed the issue by saying that they had heard from you complaining about "third-world" service that seems to go out - as the Governor said in his letter - "every time the wind blows." Every Commissioner cited consumers' letters and noted that you were "angry" and that this was no time for "business as usual." They told Pepco that the recent storms only served to highlight the "broader theme" of "unreliability."

Pepco, after saying that it is striving to improve, acknowledged that its performance has been poor. How poor? Pepco admitted that it ranks among the nation's worst performing utilities in the frequency of outages - in the lowest 25%. And these statistics do not include outages from major storms! So, just on the normal day to day, our utility service is as bad as you feared ....and worse. In addition, Pepco also made clear that there are significant portions of its system, particularly in our region, that experience outages that are orders of magnitude greater than their poor average as a whole.

The Commission expressed great incredulity that Pepco could have such a poor record for so long and not have put before them or their predecessors on the Commission an aggressive plan to remedy the situation. After almost 3 hours, Pepco belatedly unveiled a 6 point "comprehensive plan" that envisions, over the course of the next 5 years, a \$250 million upgrade of its system, \$100 million more than they had previously anticipated. This 6 point plan includes:

- \$37 million for tree trimming;
- \$32 million to replace priority underperforming "feeders";
- \$12 million to meet new load growth;
- \$50 million for automated meters and hardware (smart grid);
- \$75 million to upgrade selected substations;
- \$37 million for selected undergrounding of cables in residential areas.

It is not known what level of "reliability" this investment will achieve, however. In fact, it appears that even this amount of investment, over 5 years, will only get us to "average", if that. Average service is simply not good enough for me and, I suspect, you would probably agree.

Although only Pepco executives were allowed to speak, I did make a formal submission to the Commission, which the Chairman alluded to. In that [submission](#), I gave them 132 emails that you had sent me so that they will hear it directly from you as to how fed up we are. I also made three fundamental points:

(1) This is a fixable problem - the MPSC controls everything that Pepco does and they can and should direct them to have a first class distribution system;

(2) There should be "standards" for reliability as other states have required. Today, Pepco simply files "reports", nothing more, and as the Chairman observed, there is nothing to judge Pepco's performance by. There is a saying that I hope I am not butchering by suggesting that if you don't know where you are going, it is hard to know when you've gotten there. We need standards of

reliability that make it clear what quality of service we expect Pepco to provide; and

(3) Once we have standards, Pepco must be held accountable. Many other states have adopted "performance based ratemaking" - adjusting a utility's financial return on the basis of how well it performs. It is time for Maryland to do so too. In my view, there is no measure of performance more fundamental than reliability, and if Pepco does not meet the standards that the Commission sets, it should be penalized in its return on equity.

These principles are at the core of state legislation that I drafted in consultation with the Chair of our Maryland House Delegation, Del. Brian Feldman (D-15). Del. Feldman has circulated that draft legislation among his colleagues and to the Governor and it is getting favorable reviews. This is a great example of how our Council and State Delegation, working together, can make things happen for you. The Chairman of the MPSC was clearly aware of the draft, and he and several of his colleagues made it clear that they expect "standards" in the future and perhaps financial "penalties" if Pepco doesn't measure up.

This is just the beginning. In fact, the Commission has announced they will hold a public hearing at which the public will be able to testify in our Council chambers on August 30 starting at 6 pm. The details on how folks can sign up have not been finalized, but I do hope that you will consider either trying to do so (and we'll let you know how as soon as we do) or submitting your own comments to the MPSC at:

William Donald Schaefer Tower  
6 St. Paul Street, 16th Floor  
Baltimore, MD 21202

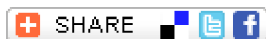
Your comments and letters to the Commission and your state legislators have had an impact. Don't stop!

The next step after that is for the Commission to set forth in an order how they intend on proceeding so that at the end of this investigation we have a very specific plan that puts us on an accelerated path to getting the high quality of utility service we deserve.

Stay tuned.

Sincerely,

Roger Berliner  
District 1



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